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**Scott's**  
Restaurants Co. Limited

**Consolidated Financial Statements**  
**April 29, 1979**

**Scott's**

# Directors and Officers

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## Directors

George R. Gardiner  
F. Ronald Graham  
William J. Bushnell  
Robert A. Stevens  
John J. Leon  
John E. Coles  
Mrs. Helen D. Phelan  
Michael Gardiner  
George S. MacDonell  
Richard A. Hunter  
William C. Graham, Q.C.  
Leslie W. Paszat

## Officers

George R. Gardiner  
Chairman of the Board  
F. Ronald Graham  
Vice-Chairman of the Board  
John J. Leon  
President  
Richard A. Hunter  
Senior Vice President  
Canadian Operations  
Leslie W. Paszat  
Senior Vice President  
U.S. Operations  
Peter J.M. Burger  
Vice President; General Manager  
Take-Out Operations — Ontario  
Melville W. Fanshaw  
Vice President; Planning  
and Development  
Guy Jeanneau  
Vice President; General Manager  
Take-Out Operations — Quebec  
Thomas W. Chase  
Vice President  
James G. Gibson, C.A.  
Vice President; Finance and Treasurer  
Edmund V. Graham, C.A.  
Secretary  
Sidney Robbins  
Assistant Secretary

## Head Office

2000 Jane St., Weston, Ont.

Head Office — Quebec  
202 Taschereau Boulevard  
Montreal, Quebec

Head Office — Florida  
4111 LeJeune Road  
Coral Gables, Florida

Solicitors  
McCarthy & McCarthy

Registrars and Transfer Agents  
Montreal Trust Company

Bankers  
The Royal Bank of Canada

Auditors  
Campbell, Lawless & Punchard

Listed  
Toronto Stock Exchange  
Montreal Stock Exchange

Une copie de ce rapport en français peut être obtenue en écrivant au Secrétaire de la Compagnie.

The Annual Meeting of Shareholders will be held at the Holiday Inn, 89 Chestnut Street, Toronto, on Friday, October 9, 1979 at 4 p.m.

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## To Our Shareholders


This report presents your Company's financial statements covering the period from our previous December year end to our new April 29th year end. It contains reports of our sales and earnings for the four month period from January 1, 1979 to April 29, 1979. For your information, we also include our results for the year 1978.

Your Board of Directors has approved the choice of April 29 as the most appropriate date for the purpose of consolidating the operations of your Company and Commonwealth Holiday Inns of Canada Limited. Accordingly, we include in the report a consolidated balance sheet as at the deemed acquisition date.

We are pleased to advise you that as of August 27, 1979, your Company had acquired 99.3% of the issued outstanding shares of Commonwealth Holiday Inns of Canada Limited. The co-operation we have received from the management and staff of Commonwealth Holiday Inns of Canada Limited has been most gratifying. The consolidation of our two companies is proceeding very smoothly and this acquisition to date is living up to our expectations.

We have been advised that two of our directors will not be standing for re-election at the Annual Shareholders' Meeting; Mr. William J. Bushnell and Mr. John E. Coles. Mr. Bushnell and Mr. Coles have made valuable contributions for many years to your Company for which we thank them.

We must record also with deep regret the death of Mr. Murray Duff, Vice-President and General Manager of Food Services Operations, after many years of loyal service.



George R. Gardiner  
Chairman of the Board



J.J. Leon  
President

August 27, 1979

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**Restaurants Co. Limited** (Incorporated under the laws of Ontario)

## Consolidated Balance Sheets

April 29, 1979  
(with comparative amounts at December 31, 1978)

### ASSETS

	April 29, 1979		December 31, 1978
	Consolidated	Consolidated (before giving effect to consolidation of the accounts of Commonwealth Holiday Inns of Canada Limited)	
<b>Current:</b>			
— Cash and short term investments	\$ 16,877,279	\$ 2,604,917	\$ 5,995,328
— Accounts receivable	12,059,906	226,600	328,240
— Inventories (note 2)	4,982,083	1,190,253	1,277,263
— Prepaid expenses	3,611,067	826,812	430,300
— Income taxes recoverable	380,774	380,774	
	37,911,109	5,229,356	8,031,131
<b>Investments (note 3)</b>	3,973,767		
<b>Fixed — at cost (note 4):</b>			
— Land	38,174,429	16,743,054	16,480,213
— Buildings and leasehold improvements	171,902,617	34,884,104	33,922,510
— Furnishings and equipment	42,710,037	18,730,271	17,676,911
— Transportation equipment	12,815,698		
	265,602,781	70,357,429	68,079,634
— Less accumulated depreciation and amortization	15,353,086	15,353,086	14,250,315
	250,249,695	55,004,343	53,829,319
<b>Other:</b>			
— Franchises, at cost less amortization	3,826,922	3,085,596	3,152,717
— Deferred development and pre-opening expenses (note 1(g))			1,007,002
— Transportation operating authorities, at cost	4,935,798		
	8,762,720	3,085,596	4,159,719
<b>Investment in Commonwealth Holiday Inns of Canada Limited — at cost (note 1(a))</b>		62,010,010	
	\$300,897,291	\$125,329,305	\$66,020,169

Approved on behalf of the Board  
George R. Gardiner, Director  
John J. Leon, Director



**Restaurants Co. Limited** (Incorporated under the laws of Ontario)

## Consolidated Balance Sheets

April 29, 1979

(with comparative amounts at December 31, 1978)

### LIABILITIES

April 29, 1979

	Consolidated	Consolidated (before giving effect to consolidation of the accounts of Commonwealth Holidays Inns of Canada Limited)	December 31, 1978
<b>Current liabilities:</b>			
— Accounts payable and accrued charges	\$ 31,589,576	\$ 10,314,072	\$10,410,488
— Taxes payable	2,395,876		2,778,024
— Dividend payable	1,365,423	1,365,423	
— Provision for cost of purchasing remaining common shares and redemption of outstanding preference shares of Commonwealth (note 1 (a))	779,245		
— Long-term debt payable within one year	6,250,455	106,875	
	42,380,575	11,786,370	13,188,512
<b>Long-term debt (note 7)</b>	182,555,594	60,943,235	
<b>Deferred gains</b>	1,072,111		
<b>Deferred income taxes</b>	23,824,379	2,830,510	2,604,202
<b>Minority interest in subsidiary (note 5)</b>	1,295,442		

### SHAREHOLDERS' EQUITY

#### — Capital (note 6)

Authorized:

19,999,000 Class "A" and "B" shares

1,000 common shares

Issued:

8,533,896 Class "A" and "B" shares

(8,530,896 at December 31, 1978)

#### — Retained earnings (note 8)

	6,980,152	6,980,152	6,958,552
	42,789,038	42,789,038	43,268,903
	49,769,190	49,769,190	50,227,455
	\$300,897,291	\$125,329,305	\$66,020,169

(See accompanying notes)

# Scott's

## Restaurants Co. Limited

### Consolidated Statement of Income

Seventeen Weeks Ended April 29, 1979  
(with comparative amounts for the fifty-two weeks ended December 31, 1978)

	1979	1978
	Seventeen weeks to April 29 (before giving effect to consolidation of the accounts of Commonwealth Holiday Inns of Canada Limited)	Fifty-two weeks to December 31
Sales	\$38,166,785	\$111,401,484
Cost of goods sold, operating and administrative expenses	35,714,676	97,949,571
Income from operations	2,452,109	13,451,913
Interest income	72,170	425,680
Income before income taxes and the undernoted	2,524,279	13,877,593
Income taxes	1,061,719	5,550,000
Income before the undernoted	1,462,560	8,327,593
Cumulative effect on prior years' net income of change in accounting policy relating to development and pre-opening expenses as described in note 1(g), net of deferred income tax of \$430,000	577,002	
Net income for the period	\$ 885,558	\$ 8,327,593
Net income per share	\$ 0.10	\$ 0.99

### Consolidated Statement of Retained Earnings

Seventeen Weeks Ended April 29, 1979  
(with comparative amounts for the fifty-two weeks ended December 31, 1978)

	1979	1978
	Seventeen weeks to April 29 (before giving effect to consolidation of the accounts of Commonwealth Holiday Inns of Canada Limited)	Fifty-two weeks to December 31
Balance, beginning of period	\$43,268,903	\$ 37,439,376
Net income for the period	885,558	8,327,593
	44,154,461	45,766,969
Deduct dividends paid	1,365,423	2,498,066
Balance, end of period	\$42,789,038	\$ 43,268,903

(See accompanying notes)

# Scott's

## Restaurants Co. Limited

### Consolidated Statement of Changes in Financial Position

Seventeen Weeks Ended April 29, 1979

(with comparative amounts for the fifty-two weeks ended December 31, 1978)

	1979	1978
	Seventeen weeks to April 29 (before giving effect to consolidation of the accounts of Commonwealth Holiday Inns of Canada Limited)	Fifty-two weeks to December 31
<b>Source of funds:</b>		
— Operations —		
Net income	\$ 885,558	\$ 8,327,593
Add expenses included therein not requiring an outlay of funds —		
Depreciation of fixed assets	1,211,566	3,048,480
Amortization of franchises	67,121	206,447
Amortization of development and pre-opening expenses (note 1(g) )		265,265
Write-off of unamortized balance of deferred development and pre-opening expenses (note 1(g) )	1,007,002	
Deferred income taxes	226,308	367,000
— Funds received from operations	3,397,555	12,214,785
— Bank loans and banker's acceptances (net)	60,943,235	
— Issue of shares	21,600	1,216,446
Total funds received	64,362,390	13,431,231
<b>Application of funds:</b>		
— Investment in Commonwealth Holiday Inns of Canada Limited, at cost to April 29 (note 1(a) )	62,010,010	
— Purchase of fixed assets	2,386,590	18,900,883
— Development and pre-opening expenses (note 1(g) )		1,118,797
— Dividends	1,365,423	2,498,066
Total funds expended	65,762,023	22,517,746
<b>Deficiency of funds received over funds expended</b>	<b>\$ 1,399,633</b>	<b>\$ 9,086,515</b>

(See accompanying notes)

# Scott's

## Restaurants Co. Limited

### Notes to Consolidated Financial Statements

April 29, 1979

#### 1. Significant accounting policies

##### (a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries.

During the period, the company acquired approximately 99% of the common shares of Commonwealth Holiday Inns of Canada Limited (Commonwealth). For purposes of consolidation, the company has taken April 29, 1979 as the effective date of acquisition. Accordingly the accompanying consolidated financial statements include the assets and liabilities of that company as at April 30, 1979 (its fiscal year-end) but do not include any of its results of operations or changes in financial position prior to that date. All of the subsidiaries of Commonwealth (principally Charterways Co. Limited) are wholly owned with the exception of Allied Inn Keepers of Trinidad and Tobago Limited (65%).

Particulars of the fair value, as determined by management, of the underlying net assets of Commonwealth as at its fiscal year end, April 30, 1979 and the total purchase price of the shares of the company after making full provision for the cost of purchasing all of the remaining minority shareholders' interest and the redemption of the remaining outstanding preference shares of Commonwealth are as follows:

Net working capital	\$ 2,866,793
Investments	3,973,767
Fixed assets	195,245,352
Franchises	741,326
Transportation operating authorities	4,935,798
	207,763,036
Deduct long term debt, deferred gains, deferred income taxes and the minority interest in a subsidiary of Commonwealth	144,973,781
Net assets acquired at fair value	\$ 62,789,255
Cash purchase price paid to April 29 (including acquisition expenses)	\$ 62,010,010
Provision for cost of purchasing remaining common shares and redemption of the outstanding preference shares of Commonwealth	779,245
Total purchase price of the shares	\$ 62,789,255

All acquisitions of subsidiary companies have been accounted for by the purchase method and all material inter-company transactions have been eliminated on consolidation.

In the accompanying consolidated financial statements, the consolidated balance sheet of the company before giving effect to the consolidation of the accounts of Commonwealth and its subsidiaries is shown for comparative purposes.

##### (b) Foreign exchange

The accounts of foreign subsidiaries and those of the company to be settled in foreign currencies are translated into Canadian dollars at current rates of exchange except for non-current assets, long-term debt and depreciation and amortization which are translated at historical rates of exchange and sales and expenses (other than depreciation and amortization) which are translated at average rates of exchange for the period. Gains and losses on translation are taken into income. The long term debt of Commonwealth payable in foreign currencies has been translated at rates of exchange at the effective date of the acquisition of that company.

##### (c) Inventories

Inventories are valued at the lower of cost, determined on a first, in, first out basis, and replacement cost. Furnishing contracts in progress are valued at contract costs incurred, net of billings on account and adjusted for income earned on a percentage of completion basis.

##### (d) Deferred gains

Gains realized by Commonwealth on sale and leaseback transactions are deferred and transferred to income over the term of the applicable leases.

##### (e) Income taxes

Income taxes are provided on the basis of accounting income which is different from income as determined for income tax purposes as a result of claiming capital cost allowances different from depreciation and amortization and other timing differences. Income taxes which have been provided for but which are not currently payable, are included as deferred income taxes in the accompanying consolidated balance sheets.

##### (f) Depreciation and amortization

Depreciation and amortization relating to the fixed assets of the company is to be computed on a straight-line basis (with minor exceptions) over the estimated remaining useful lives of the various assets.

Estimates of useful life by category are as follows:

	years
Scott's Restaurants	
— Buildings	20
— Equipment	10
— Leasehold improvements	lease term
Commonwealth Hotels	
— Buildings	40
— Equipment	11
— Leasehold improvements	lease term
Transportation assets	
— Equipment	7½ - 12

The amortization of franchises is to be computed on a straight-line basis over the term of the franchise agreements. In the case of the agreements with Colonel Sanders Kentucky Fried Chicken Limited, these franchises expire in 1994. The amortization of transportation operating authorities is to be computed on a straight-line basis over 40 years.

**(g) Change in accounting policy**

As at January 1, 1979 the company changed its accounting policy relating to the deferment and subsequent amortization of development and pre-opening expenses of its Florida operations to charge such expenses against income as incurred. The cumulative effect on prior years' net income of this change, net of deferred income taxes of \$430,000, would have been to reduce such net income by \$577,002 or 7¢ per share.

**2. Inventories**

	April 29, 1979	December 31, 1978
Scott's Restaurants Co. Limited:		
Food and packaging	\$1,190,253	\$1,277,263
Commonwealth:		
Food and beverage	1,978,514	
Operating supplies	1,241,385	
	<u>3,219,899</u>	
Transportation fuel and replacement parts	286,639	
Furnishing contacts in progress	285,292	
	<u>\$4,982,083</u>	<u>\$1,277,263</u>

**3. Investments (all of which are owned by Commonwealth)**

Term deposit receipt pledged as security for long term debt	\$2,000,000
Non-current debentures and notes receivable	1,973,767
	<u>\$3,973,767</u>

**4. Fixed assets**

A major portion of the real estate, furnishings and equipment and transportation equipment owned by Commonwealth is pledged to secure mortgages and other long term debt.

**5. Minority interest**

This consists of the minority interest in Allied Inn Keepers of Trinidad and Tobago Limited (a subsidiary of Commonwealth).

**6. Capital**

During the period, as a result of the exercise of employee options, 3,000 Class A shares were issued at \$7.20 per share for \$21,600 cash.

The company has reserved 300,000 of its authorized but unissued Class A shares for issue to officers and key employees under the terms of a stock option plan established in 1976. Options for 282,000 shares have been granted by the company of which options for 269,000 shares are outstanding at April 29, 1979. These options are exercisable in instalments to 1984 at prices ranging from \$7.20 to \$8.54 per share.

**7. Long term debt**

Long term debt outstanding at April 29, 1979 consists of:

	Payable within one year	Amount
Scott's Restaurants Co. Limited:		
Term bank loan due in 1983	\$ 106,875	\$ 1,710,000
Bank loan and banker's acceptances		59,340,110
	<u>106,875</u>	<u>61,050,110</u>
Commonwealth and its subsidiaries:		
(a) Real estate mortgages payable:		
7.45% - 14.69% maturing on varying dates from 1979 to 2006	4,928,114	99,139,610
Including payable in foreign currency:		
U.S. \$46,483,380 (Cdn. \$54,060,171)		
T.T. \$ 4,532,676 (Cdn. \$2,221,011)		
U.K. £ 3,723,456 (Cdn. \$9,329,336)		
(b) Specific charge debt on transportation equipment:		
9¾% - 13¼%	110,274	10,262,156
(c) Secured notes payable: 6⅞% secured notes maturing June 30, 1989 (secured by mortgages and first floating charge on certain properties) (U.S. \$5,733,282)		6,668,443
(d) Sinking fund debentures payable:		
6% - 7½% debentures maturing in 1979 and 1980	190,000	190,000
(e) Other secured debt:		
11⅞% - prime + 2% Repayment terms extending to 1983	500,000	6,652,000
Including payable in foreign currency: U.S. \$4,000,000 (Cdn. \$4,652,000)		
(f) Unsecured notes payable:		
0% - 10% maturing on varying dates from 1981 to 1987	415,192	1,616,230
Including payable in foreign currency: U.K. £333,228 (Cdn. \$834,736)		
(g) Interim financing repayable from proceeds of committed mortgage loans (secured by first mortgage on certain properties)		3,227,500
Including payable in foreign currency: U.K. £650,000 (Cdn. \$1,627,500)		
	<u>6,143,580</u>	<u>127,755,939</u>
Totals	<u>\$6,250,455</u>	<u>188,806,049</u>
Less payable within one year		<u>6,250,455</u>
		<u>\$182,555,594</u>

Long term debt repayments (instalments and maturing balances) for the next five years are as follows:

	Scott's Restaurants Co. Limited	Common- wealth and its subsidiaries	Total
1980	\$ 106,875	\$ 6,143,580	\$ 6,250,455
1981	1,677,500	19,814,687	21,492,187
1982	5,427,500	16,418,503	21,846,003
1983	5,427,500	17,929,770	23,357,270
1984	5,320,625	5,462,248	10,782,873

The bank loan and banker's acceptance in the amount of \$59,340,110 are secured by hypothecation of all of the shares of Commonwealth owned by the company. The interest rates on these bank loans vary between prime and prime plus 3/4% per annum. The rates of commission on banker's acceptances vary between 1/2% and 3/4% per annum. The average rate of interest for the fiscal period ended April 29, 1979 approximated 1/8% below prime. Under the agreement relating to these loans and acceptances, quarterly repayments of \$1,250,000 must commence not later than March 31, 1981 with the balance due February 15, 1991.

The agreement relating to the company's bank loans contains restrictions relating to dividends, particulars of which are described in note 8, and additional covenants with respect to the company and its designated subsidiaries (for which purpose, Commonwealth is excluded) which limit the consolidated debt-equity ratio of the company and its designated subsidiaries to 2 to 1.

Additional particulars relating to the long-term debt of Commonwealth and its subsidiaries are as follows:

#### Real estate mortgages —

Certain mortgages contain participation clauses which may increase interest payable thereon.

#### Specific charge debt —

Specific charge debt on transportation equipment includes \$5,157,299 which is payable under an agreement with a finance institution whereby the transportation subsidiary is not required to make monthly contractual instalments until after its 1979 fiscal year and \$4,727,036 due to bankers on which the company may delay monthly repayments to a maximum cumulative period of twelve months. In the accompanying consolidated financial statements no amount is included as due within one year in respect of these amounts. In the preceding table of long-term debt repayments of Commonwealth for the next five years, the repayments which normally would have been due in 1980 (\$2,857,700) are shown as due in the next following year (1981).

#### Additional security —

Included in long-term debt are amounts due to Commonwealth's principal banker in respect of which that company has pledged its accounts receivable and lodged as collateral security floating charge debentures totalling \$5,000,000 and \$7,500,000 on its assets and those of Charterways Co. Limited respectively and a first floating charge on the company's United Kingdom assets.

### 8. Restriction on dividends

The agreement relating to the company's bank loans contains restrictions relating to the payment of dividends in any year in excess of the net earnings of the company and its designated subsidiaries for such fiscal year (for which purpose Common-

wealth is excluded) and the redemption or purchase of its capital stock or other distributions of cash or property to shareholders without the prior written approval of the bank.

Restrictions with respect to dividend payments by Commonwealth relate to its preferred shares — Series A, all of which were redeemed subsequent to April 29, 1979 and to its sinking fund debentures all of which mature prior to April 29, 1980. At April 29, 1979 under the most restrictive provisions \$5,900,000 was available for distribution.

### 9. Contingent liabilities and commitments

#### Scott's Restaurants Co. Limited —

Scott's Restaurants Co. Limited, Les Restaurants Scott (Quebec) Limitée and Scott's Restaurants Inc., have been named, along with others, in an action in the Supreme Court of Ontario in which the plaintiffs are KFC Corporation and KFC National Management Company. The plaintiffs allege against the defendants in various combinations, damages allegedly resulting from certain actions allegedly taken by the defendants in connection with the operations commenced by Scott's Restaurants Co. Limited in the United States, and certain injunctive relief. The damages claimed by the plaintiffs which are specified in the claim aggregate, on the face of the claim, \$8,000,000. The plaintiffs also claim other damages in amounts which cannot presently be determined.

The company denies any charges of wrong-doing and intends to vigorously oppose the claims. Management believes that the ultimate liability, if any, will not have a materially adverse effect on the financial position of the company. No provision has been made in the accompanying consolidated financial statements in respect of these claims.

#### Commonwealth —

(a) The company is contingently liable with respect to guarantees which at April 30, 1979 amount to \$267,000 and with respect to the guarantee of lease payments over the next fifteen years amounting to \$3,492,000 relating to a Caribbean Inn, the operations of which were sold during the period.

(b) The company is subject from time to time to various claims and disputes. As at April 30, 1979, there are no unsettled claims or disputes of a material nature against the company which have not been provided for or which, in the opinion of management, will result in material cost to the company except for a claim for damages totalling approximately \$1,000,000 arising from an occurrence in prior years of which the company became aware in 1979. While the eventual cost to the company remains uncertain, in the opinion of management \$300,000 should be adequate to provide for the ultimate settlement of these claims and this amount has been provided for in the accompanying consolidated financial statements.

(c) The cost to complete Inns under construction and to complete certain asset purchases of transportation operations to which the company is committed, subject to regulatory approval, amounts to \$11,900,000. No portion of this amount is reflected in the accompanying consolidated financial statements except for deposits of approximately \$256,000 relating to the purchase of these transportation operations which will be applied to reduce the purchase price at date of closing. The company has arranged for financing in respect of these commitments. Subsequent to the end of the period, the company entered into a further commitment to purchase, for U.S. \$1,500,000, the shares of the company which owns the Inn in Barbados. At April 30, 1979 this Inn was being operated under a lease.

## 10. Long term leases and fees

Scott's Restaurants Co. Limited —

The company's policy is to own rather than lease its properties. At April 29, 1979, the company was committed to annual lease obligations of \$696,000 during the 1980 fiscal year reducing to \$258,000 in the 1984 fiscal year.

Commonwealth —

The company has entered into agreements to lease properties which are operated as Inns (including land leases in the United Kingdom) and as transportation terminals. Inn leases, generally, are for original periods varying from ten to thirty years with renewal options extending from five to twenty-five years (land leases in the United Kingdom are for extended periods) at rentals determined as a percentage of revenue subject to minimum stated amounts. Leases for transportation terminals generally do not exceed ten years. As at April 30, 1979, total minimum rental payments for the remaining terms of the leases approximate \$189,300,000 and aggregate approximately \$9,400,000 annually. Rentals, which are determined as a percentage of revenues with no minimum amounts, are excluded from the calculation of the above amounts. Certain leases provide the company with options to purchase the leased properties.

Under its agreements with Holiday Inns, Inc. the company is required to pay royalties and assessments for advertising and other services which currently amount to approximately \$4,800,000 annually. It has also entered into miscellaneous equipment leases extending to 1986 in respect of which total rentals for the remaining terms of the leases approximate \$5,400,000.

In December 1978, the Accounting Research Committee of the Canadian Institute of Chartered Accountants issued accounting recommendations for leases applicable to all leases entered into in fiscal years commencing after January 1, 1979. A substantial number of existing leases relating to Inns operated by Commonwealth at April 29, 1979 qualify as capital leases as defined in this accounting recommendation. These

leases are considered to be existing leases acquired as a result of the acquisition of Commonwealth and accordingly are not accounted for as capital leases in the accompanying consolidated balance sheet as at April 29, 1979.

If these leases had been accounted for as capital leases on consolidation of the accounts of Commonwealth as at April 29, 1979, the following particulars would have been shown:

Assets —

Inn buildings and furnishings under capital leases	<u>\$71,065,032</u>
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Liability under capital leases  
(based on minimum stated amounts):

Current	\$ 3,012,173
Non-current	<u>68,052,859</u>
	<u>\$71,065,032</u>

## 11. Supplementary information

The aggregate direct remuneration paid or payable by the company to directors and senior officers amounted to \$178,377 for the period ended April 29, 1979 and \$505,955 for the year ended December 31, 1978. This remuneration includes directors' fees of \$8,500 for 1978.

## 12. Income per share

Net income per Class A and B shares is calculated on the weighted average number of shares outstanding during the year. The conversion of stock options outstanding at the fiscal period end is not considered to have a material dilutive effect on such earnings per share.

## 13. Changes of year-end

The company changed its fiscal year-end from the Sunday closest to December 31 to the Sunday closest to April 30 effective April 29, 1979. Commonwealth Holiday Inns of Canada Limited also changed its fiscal year end from October 31 to April 30 effective April 30, 1979.

# Auditors' Report

To the Shareholders of  
Scott's Restaurants Co. Limited:

We have examined the consolidated balance sheets (both before and after giving effect to the consolidation of the accounts of Commonwealth Holiday Inns of Canada Limited) of Scott's Restaurants Co. Limited as at April 29, 1979 and the consolidated statements of income, retained earnings and changes in financial position before giving effect to the consolidation of the accounts of Commonwealth Holiday Inns of Canada Limited for the seventeen week period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of other auditors who have examined the consolidated financial statements of Commonwealth Holiday Inns of Canada Limited.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 29, 1979 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles which, except for the change in the method of accounting for deferred development and pre-opening expenses as described in note 1(g) of the notes to the financial statements, with which change we concur, have been applied on a basis consistent with that of the preceding period.

Toronto, Ontario  
August 27, 1979

Campbell, Lawless & Punchard  
Chartered Accountants



Dear Shareholder:

We are pleased to report that the restaurant, hotel and transportation segments of the business have all shown a marked improvement in sales revenue as well as in net profits during the last six months.

It should be noted, however, that the interim report for the six months ended October 31, 1979 reflects the operations of the business at their peak season when earnings have been traditionally at their highest point. The remainder of the current fiscal year is not expected to return profits on a comparable basis.

After making the necessary adjustments to 1978 earnings to reflect the interest expense on the borrowings which were required in 1979 to finance the purchase of Scott's investment in Commonwealth the following comparisons can be made:

*6 Months Ended October 31*

	<u>(\$000)</u>		
	<u>1979</u>	<u>1978</u>	<u>Increase</u>
Sales . . . . .	\$193,807	\$163,204	18.7%
Net Earnings . . . . .	\$ 10,296	\$ 8,148	26.3%
Earnings per share . . . . .	\$1.20¢	\$0.95¢	

The past six months have been a busy time for the management of both Scott's and Commonwealth Holiday Inns. We are pleased with the cooperation we have received from the management of Commonwealth who have made the transition period a pleasant and orderly experience.

The outlook for the balance of the fiscal year continues to be favourable.

George R. Gardiner,  
Chairman of the Board

J. J. Leon,  
President

December 10, 1979

# Scott's Restaurants Co. Limited

AR49



## Interim Report to Shareholders

6 MONTHS ENDED OCTOBER 31, 1979

# SCOTT'S RESTAURANTS CO. LIMITED

## STATEMENT OF CONSOLIDATED EARNINGS SIX MONTHS ENDED OCTOBER 31, 1979

(Unaudited Interim Report)  
(\$000)

	1979
Sales — restaurant division . . . . .	\$ 64,369
— hotel division . . . . .	115,598
— transportation . . . . .	13,840
Total sales . . . . .	<u>\$193,807</u>
Cost of goods sold, operating and administrative expenses . . . . .	154,299
Depreciation and amortization . . . . .	8,172
Amortization of franchise and deferred costs . . . . .	203
	<u>162,673</u>
Income from operations . . . . .	<u>31,134</u>
Interest income . . . . .	749
Interest expense on long term debt . . . . .	10,666
Interest expense on short term debt . . . . .	26
	<u>21,191</u>
Earnings before taxes . . . . .	21,191
Income taxes . . . . .	10,809
	<u>10,382</u>
Earnings from operations . . . . .	10,382
Foreign exchange loss . . . . .	86
Net earnings for the period . . . . .	<u>\$ 10,296</u>
Net earnings per share . . . . .	<u>\$1.20¢</u>

Had Scott's Restaurants Co. Limited owned Commonwealth Holiday Inns of Canada Limited during 1978, the pro-forma operating results for the six months ended October 31, 1978 would have been:

Total revenues — \$163,204,000

Consolidated earnings — \$8,148,000 or 95¢ a share

Adjustment has been made to 1978 earnings to reflect interest expense on the borrowings which were required in 1979 to finance the purchase of Scott's investment in Commonwealth. This adjustment amounts to \$1,935,000 after tax, and represents the actual interest paid in 1979 on an after tax basis.

Please note —

The statement of consolidated earnings and the consolidated statement of changes in financial position cover the following period of time:

Restaurant Division — 24 weeks ended October 24, 1979

Hotel and Transportation — 6 months ended October 31, 1979

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION SIX MONTHS ENDED OCTOBER 31, 1979

(Unaudited Interim Report)  
(\$000)

	1979
SOURCE OF FUNDS:	
From Operations —	
Net earnings for period . . . . .	\$ 10,296
Add expenses included therein not requiring an outlay of funds —	
Depreciation of fixed assets . . . . .	8,172
Amortization of franchises . . . . .	203
Deferred income taxes . . . . .	2,042
Funds received from operations . . . . .	<u>20,713</u>
Mortgages and long-term debt . . . . .	13,405
Reduction of investments . . . . .	2,052
Sale of fixed assets . . . . .	262
Issue of shares . . . . .	259
Total funds received . . . . .	<u>\$ 36,691</u>

### APPLICATION OF FUNDS:

Investment in Caribbean . . . . .	1,938
Purchase of fixed assets . . . . .	16,702
Deferred costs . . . . .	193
Reduction of long-term debt . . . . .	21,649
Redemption of preferred shares . . . . .	119
Reduction in provision for cost of purchasing remaining common shares and redemption of outstanding preference shares of Commonwealth . . . . .	261
Other . . . . .	40
Total funds expended . . . . .	<u>\$ 40,902</u>
Deficiency of funds received over funds expended . . . . .	(4,211)
Working capital beginning of period . . . . .	<u>(3,690)</u>
Working capital end of period . . . . .	<u>\$ (7,901)</u>